

PERAC AUDIT REPORT



Mass. Turnpike Authority Retirement System



JAN. 1, 1999 - DEC. 31, 2002 | PERAC 02: 12-056-13



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

September 10, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Mass. Turnpike Authority Employees'** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 1999 to December 31, 2002. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Mass. Turnpike Authority Employees' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1. Cash

- A. A review of The Mass Turnpike Authority Employees Retirement Board's bank statement dated December 31, 2002 shows a balance of \$3,951.55, representing seven outstanding retiree checks dating back to 1/31/96. This balance was reduced to \$342.91 as of January 31, 2004; however, on this date two checks dating back to 12/20/02 were still outstanding.
- B. In addition, the Annual Statement, Schedule 1, 'Cash Account Activity During the Year' does not list Mellon Trust of New England's name or cash balance.

Recommendation:

- A. Checks outstanding more than six months must be reviewed to determine if the retiree is still eligible to receive the retirement checks. This review should include letters to retirees requesting information as to the status of the uncashed checks. The retirees must be given at least 30 days to respond. Only after these procedures are followed may the checks be returned back to the system.
- B. All cash banking institutions and account balances must be listed on the Schedule 1 section of the Annual Statement.

Board Response:

- A. Outstanding checks have been verified and redeposit has been applied.
- B. All cash banking institutions and account balances, if any, will be listed on Schedule 1 of the Annual Statement.

2. Pension Fund Appropriations:

Pension Fund Appropriations received from the Mass Turnpike Authority (MTA) are recorded against Account #4894 – Pension Fund Appropriation and Account #4896 - Expense Fund Appropriation. The end result of this transaction is funds are returned back to the MTA causing MTA Retirement System's funding schedule to be higher to make up the difference.

Recommendation:

The total required appropriation received from the MTA must be accounted for or debited, as cash and the total offset credit must be recorded against account #4894 – Pension Fund Appropriations. Monies must not be returned to the MTA.

Board Response:

The total required appropriation received from the Massachusetts Turnpike Authority will be accounted for, and no part of the appropriation will be returned to the Massachusetts Turnpike Authority.

Mass. Turnpike Authority Employees' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

3. Board Minutes

The Mass Turnpike Retirement Board Minutes are exemplary in terms of documenting the activities of the Board Members and Board Member attendance. However, PERAC recommends minor changes to enhance internal control objectives.

- A. Cash account reconciliations are not mentioned in Board Minutes.
- B. Warrants are mentioned in the minutes but not always the warrant numbers. Amounts are not mentioned in Board Minutes (e.g., "approval of vouchers per attached schedule" but nothing referenced or attached in the Minutes).
- C. Pages are not sequentially numbered in the Board Minutes.
- D. Staff salary adjustments are not mentioned in the Board Minutes.
- E. Transfers to other systems recorded in the warrant book do not identify the system where the members' monies are transferred.

Recommendation:

As indicated above, for purpose of internal control, PERAC recommends that the Retirement System:

- A. Review the reconciliation of cash accounts (and continue reviewing the trial balance) at monthly meetings.
- B. Specifically identify each monthly warrant by number assigned in the Warrant Book and amount that the Board Member is approving.
- C. Number sequentially the pages (i.e., the current numbering system restarts on page 1 at each month meeting rather than continuing forward to infinity).
- D. Employee adjustments such as raises or other salary adjustments should be documented in the Board Minutes.
- E. The warrant book should identify the retirement system where the monies are being transferred.

Board Response:

- A. The Board will allow staff to continue to reconcile cash accounts. The Board will continue to review the Trial Balance at monthly meetings.
- B. The minutes will specifically identify each monthly warrant by number and amount that the Board is approving.
- C. The Board will continue numbering the pages of Board Minutes as established.
- D. Employee adjustments in salary will not be documented at this time in the Board minutes.
- E. The warrant will identify the retirement system where members transfer[s] to.

4. Fifth Board Member:

The previous audit (January 1, 1996 to December 31, 1998) of the Mass Turnpike Retirement System noted that the Board had not appointed a Fifth Member. The Minutes of the May 24, 2000

Mass. Turnpike Authority Employees' Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

Board Meeting stated that "...it has been more than two (2) years since the Board conducted interviews for the Fifth Member". As of the date of this audit, over seven years have passed without the Board electing a Fifth Member.

Recommendation:

Pursuant to G.L. c. 32 § 20 (4½) (h), the system shall be managed by a Board consisting of five members. The Board must act to fill this position immediately.

Board Response:

The Fifth Board Member has been appointed effective May 26, 2004.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Mass. Turnpike Authority Employees' Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$10,673,909	\$11,547,298	\$7,050,250	\$7,538,718
Short Term Investments				
Fixed Income Securities (at book value)	67,220,160	66,093,482	64,486,825	54,620,800
Equities	47,344,321	68,401,768	70,224,050	69,754,347
Pooled Short Term Funds				
Pooled Domestic Equity Funds				
Pooled International Equity Funds	12,732,489	13,248,179	16,309,851	17,815,476
Pooled Global Equity Funds				
Pooled Domestic Fixed Income Funds				
Pooled International Fixed Income Funds				
Pooled Global Fixed Income Funds				
Pooled Alternative Investment Funds				
Pooled Real Estate Funds				
Pooled Domestic Balanced Funds	19,028,914	25,731,717	30,592,344	36,682,751
Pooled International Balanced Funds				
PRIT Cash Fund				
PRIT Core Fund				
Interest Due and Accrued	753,903	873,680	945,986	770,710
Accounts Receivable	4,451,970	241,219	49,774	113,805
Accounts Payable	(6,816,897)	(6,924,756)	(767,536)	(886,143)
TOTAL	<u>\$155,388,769</u>	<u>\$179,212,587</u>	<u>\$188,891,544</u>	<u>\$186,410,464</u>
FUND BALANCES				
Annuity Savings Fund	\$47,011,656	\$49,169,187	\$45,196,492	\$42,255,822
Annuity Reserve Fund	19,656,690	13,312,845	13,061,603	12,357,806
Pension Fund	0	0	0	0
Military Service Fund	502	495	486	476
Expense Fund	0	0	0	0
Pension Reserve Fund	88,719,921	116,730,059	130,632,964	131,796,361
TOTAL	<u>\$155,388,769</u>	<u>\$179,212,587</u>	<u>\$188,891,544</u>	<u>\$186,410,464</u>

Mass. Turnpike Authority Employees' Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	\$37,483,187	\$12,269,810	\$0	\$465	\$0	\$120,906,578	\$170,660,041
Receipts	6,756,733	364,909	1,455,636	10	1,197,410	16,903,818	26,678,516
Interfund Transfers	(931,276)	974,276	5,971,035	0	0	(6,014,035)	0
Disbursements	(1,052,823)	(1,251,190)	(7,426,671)	0	(1,197,410)	0	(10,928,093)
Ending Balance (1999)	42,255,822	12,357,806	0	476	0	131,796,361	186,410,464
Receipts	6,492,622	370,138	745,667	10	1,227,675	5,959,290	14,795,402
Interfund Transfers	(1,611,442)	1,627,450	7,106,679	0	0	(7,122,687)	0
Disbursements	(1,940,510)	(1,293,791)	(7,852,346)	0	(1,227,675)	0	(12,314,322)
Ending Balance (2000)	45,196,492	13,061,603	0	486	0	130,632,964	188,891,544
Receipts	6,153,222	388,502	802,612	9	1,191,036	(6,337,915)	2,197,466
Interfund Transfers	(1,253,788)	1,250,716	7,568,061	0	0	(7,564,989)	0
Disbursements	(926,739)	(1,387,975)	(8,370,673)	0	(1,191,036)	0	(11,876,423)
Ending Balance (2001)	49,169,187	13,312,845	0	495	0	116,730,059	179,212,587
Receipts	6,355,430	419,219	884,499	7	1,210,739	(19,930,485)	(11,060,591)
Interfund Transfers	(7,434,878)	7,443,354	8,071,178		0	(8,079,654)	0
Disbursements	(1,078,083)	(1,518,729)	(8,955,676)	0	(1,210,739)	0	(12,763,227)
Ending Balance (2002)	<u>\$47,011,656</u>	<u>\$19,656,690</u>	<u>\$0</u>	<u>\$502</u>	<u>\$0</u>	<u>\$88,719,921</u>	<u>\$155,388,769</u>

Mass. Turnpike Authority Employees' Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$5,091,100	\$4,936,507	\$4,915,187	\$4,559,484
Transfers from other Systems	354,620	304,337	557,488	1,265,375
Member Make Up Payments and Redeposits	197,938	75,679	160,151	120,390
Member Payments from Rollovers	46,500	0	0	0
Investment Income Credited to Member Accounts	665,272	836,700	859,795	811,484
Sub Total	<u>6,355,430</u>	<u>6,153,222</u>	<u>6,492,622</u>	<u>6,756,733</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>419,219</u>	<u>388,502</u>	<u>370,138</u>	<u>364,909</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	576,961	492,556	455,002	450,272
Received from Commonwealth for COLA and Survivor Benefits	0	0	0	0
Pension Fund Appropriation	307,538	310,056	290,665	1,005,364
Sub Total	<u>884,499</u>	<u>802,612</u>	<u>745,667</u>	<u>1,455,636</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>7</u>	<u>9</u>	<u>10</u>	<u>10</u>
Sub Total	<u>7</u>	<u>9</u>	<u>10</u>	<u>10</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>1,210,739</u>	<u>1,191,036</u>	<u>1,227,675</u>	<u>1,197,410</u>
Sub Total	<u>1,210,739</u>	<u>1,191,036</u>	<u>1,227,675</u>	<u>1,197,410</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	12,166	15,369	46,436	16,439
Excess Investment Income	(19,942,651)	(6,353,284)	5,912,854	16,887,379
Sub Total	<u>(19,930,485)</u>	<u>(6,337,915)</u>	<u>5,959,290</u>	<u>16,903,818</u>
TOTAL RECEIPTS	<u>(\$11,060,591)</u>	<u>\$2,197,466</u>	<u>\$14,795,402</u>	<u>\$26,678,516</u>

Mass. Turnpike Authority Employees' Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2002	2001	2000	1999
Refunds to Members	\$745,146	\$763,073	\$1,655,717	\$863,817
Transfers to other Systems	<u>332,937</u>	<u>163,667</u>	<u>284,793</u>	<u>189,005</u>
Sub Total	<u>1,078,083</u>	<u>926,739</u>	<u>1,940,510</u>	<u>1,052,823</u>
Annuity Reserve Fund:				
Annuities Paid	1,446,631	1,350,181	1,258,628	1,170,193
Option B Refunds	<u>72,097</u>	<u>37,794</u>	<u>35,163</u>	<u>80,997</u>
Sub Total	<u>1,518,729</u>	<u>1,387,975</u>	<u>1,293,791</u>	<u>1,251,190</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	7,079,833	6,612,934	6,301,005	6,071,052
Survivorship Payments	616,351	581,150	596,370	544,972
Ordinary Disability Payments	257,044	286,377	202,503	179,687
Accidental Disability Payments	813,745	704,869	545,929	394,707
Accidental Death Payments	47,270	49,007	58,271	56,042
Section 101 Benefits	37,275	41,111	39,237	36,794
3 (8) (c) Reimbursements to Other Systems	104,159	95,227	109,031	143,417
Sub Total	<u>8,955,676</u>	<u>8,370,674</u>	<u>7,852,346</u>	<u>7,426,671</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	12,087	12,087	12,087	12,087
Salaries	174,347	179,243	171,540	166,621
Legal Expenses	19,879	13,515	30,098	43,734
Medical Expenses	523	477	176	1,046
Fiduciary Insurance	4,669	0	0	0
Service Contracts	38,934	0	0	0
Travel Expenses	5,794	3,757	2,058	5,145
Administrative Expenses	14,383	44,094	46,114	37,928
Furniture and Equipment	17,219	9,867	8,476	8,203
Management Fees	728,335	756,977	798,818	770,941
Custodial Fees	125,388	103,096	92,007	87,300
Consultant Fees	<u>69,180</u>	<u>67,923</u>	<u>66,300</u>	<u>64,404</u>
Sub Total	<u>1,210,739</u>	<u>1,191,036</u>	<u>1,227,675</u>	<u>1,197,410</u>
TOTAL DISBURSEMENTS	<u>\$12,763,227</u>	<u>\$11,876,424</u>	<u>\$12,314,322</u>	<u>\$10,928,093</u>

Mass. Turnpike Authority Employees' Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$183,837.75	\$394,548.39	\$458,953.26	\$402,472.14
Short Term Investments	0	0	0	0
Fixed Income	4,586,216	4,628,956	4,500,640	3,551,988
Equities	853,437	858,105	836,270	785,407
Pooled or Mutual Funds	<u>304,224</u>	<u>285,565</u>	<u>341,797</u>	<u>272,301</u>
Commission Recapture	0	0	0	0
TOTAL INVESTMENT INCOME	<u>5,927,715</u>	<u>6,167,174</u>	<u>6,137,660</u>	<u>5,012,169</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	1,040,671	2,188,807	208,830
Realized Gains	1,002,087	2,984,260	6,175,574	10,781,110
Unrealized Gains	6,862,411	4,241,031.60	4,276,377	10,474,093
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>753,903</u>	<u>873,680</u>	<u>945,986</u>	<u>770,710</u>
Sub Total	<u>8,618,402</u>	<u>9,139,643</u>	<u>13,586,743</u>	<u>22,234,743</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	(6,879)
Paid Accrued Interest on Fixed Income Securities	(264,366)	(212,131)	(564,255)	(205,535)
Realized Loss	(17,811,218)	(7,235,553)	(3,676,392)	(1,689,172)
Unrealized Loss	(13,244,266)	(10,850,184)	(6,342,573)	(5,485,248)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(873,680)</u>	<u>(945,986)</u>	<u>(770,710)</u>	<u>(598,885)</u>
Sub Total	<u>(32,193,531)</u>	<u>(19,243,854)</u>	<u>(11,353,930)</u>	<u>(7,985,719)</u>
NET INVESTMENT INCOME	<u>(17,647,415)</u>	<u>(3,937,038)</u>	<u>8,370,472</u>	<u>19,261,192</u>
Income Required:				
Annuity Savings Fund	665,272	836,700	859,795	811,484
Annuity Reserve Fund	419,219	388,502	370,138	364,909
Military Service Fund	7	9	10	1,197,410
Expense Fund	<u>1,210,739</u>	<u>1,191,036</u>	<u>1,227,675</u>	<u>10</u>
TOTAL INCOME REQUIRED	<u>2,295,237</u>	<u>2,416,246</u>	<u>2,457,618</u>	<u>2,373,813</u>
Net Investment Income	<u>(17,647,415)</u>	<u>(3,937,038)</u>	<u>8,370,472</u>	<u>19,261,192</u>
Less: Total Income Required	<u>2,295,237</u>	<u>2,416,246</u>	<u>2,457,618</u>	<u>2,373,813</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$19,942,651)</u>	<u>(\$6,353,284)</u>	<u>\$5,912,854</u>	<u>\$16,887,379</u>

Mass. Turnpike Authority Employees' Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$7,050,250	3.73%	100
Short Term	0	0.00%	100
Fixed Income	64,586,825	34.22%	40 - 80
Equities	70,224,050	37.20%	40
Pooled International Equity Funds	16,309,851	8.64%	
Pooled Domestic Balanced Funds	30,592,344	16.21%	
GRAND TOTALS	<u>\$188,763,320</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Mass. Turnpike Authority Employees'** Retirement System was -9.11%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Mass. Turnpike Authority Employees'** Retirement System averaged 3.83%. For the seventeen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Mass. Turnpike Authority Employees'** Retirement System was 9.20%.

Mass. Turnpike Authority Employees' Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Mass. Turnpike Authority Employees'** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 6, 1991

20.02 Standard of Risk: The equity portion of a board's portfolio shall not be exposed to risks that exceed an annual average beta coefficient of 1.25 where 1.00 is equal to market volatility.

December 10, 1991

20.03(4) The Massachusetts Turnpike Authority Retirement Board may optionally record fixed income securities convertible into common stocks as equity holdings or fixed income holdings.

20.04(6) Taxable general obligation securities issued by any state, District of Columbia, U.S. possessions, or their political subdivisions, which carry the full faith and credit of the issuer for payment of principal and interest, and are denominated in U.S. currency and trade in U.S. markets, not to exceed for this category of fixed income securities 10% of the total book value of fixed income investments.

20.04(7) Fixed income securities of the governments of Australia, Canada, Denmark, France, Germany, Japan, the Netherlands, Switzerland and the United Kingdom, which are denominated in U.S. currency and trade in U.S. markets, not to exceed for this category of fixed income securities 10% of the total book value of fixed income investments.

20.06(9) \$500,000 Bank of Boston Subordinated Capital Notes 9 1/2% maturing 8/15/97 and \$600,000 Shawmut Sinking Fund Debenture 8 5/8% maturing 3/1/99 may be held until August 1, 1992 at the discretion of the Massachusetts Turnpike Authority Retirement Board's investment advisor.

20.07(3) Equity investments shall consist of no fewer than 20 holdings diversified by industry as of August 1, 1992.

20.07(4) No more than 5% of the total book value of equity investments shall be invested in the equity securities of any one company as of August 1, 1992 and prior to that date, the Massachusetts Turnpike Authority Retirement Board may hold 1/2% of the total book value of the portfolio in the equity securities of one company.

January 21, 1992

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. As of January 1, 1992, such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

Mass. Turnpike Authority Employees' Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

16.02(4) The board may employ a custodian bank and as of January 1, 1992, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

May 9, 1996

20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's nondollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

August 8, 1996

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints pertaining to corporate bonds including those stated in the Statement of Objectives (Form 18-1) and PERAC Regulations 840 CMR.

June 20, 1997

20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

January 22, 1998

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market. Please be further advised that the supplementary regulation granted on December 10, 1991 for 20.04(7) is revoked and replaced with the following supplementary regulations:

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the portfolio valued at market.

20.04(7) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Mass. Turnpike Authority Employees' Retirement System** member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Mass. Turnpike Authority Employees'** Retirement has submitted the following supplementary investment regulations, which were approved by PERAC on:

January 16, 2003

The Mass Turnpike Authority Employees' Retirement has accepted policies and procedures for all travel requests and submission of expenses for reimbursement.

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chief Financial Officer who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Dominic Tringale

Appointed Member: James Esposito

Elected Member: Francis M. Hoey Term Expires: 8/31/05

Elected Member: Gerald Coughlin Term Expires: 12/8/04

Appointed Member: Vacant

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,00
Elected Member:)	Fiduciary Liability Coverage
Appointed Member:)	Covers all Board Members
Staff Employee:)	And Employees

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING JANUARY 1, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **PriceWaterhouseCoopers** as of **January 1, 2002**.

The actuarial liability for active members was	\$108,364,317
The actuarial liability for retired/inactive members was	<u>82,930,061</u>
The total actuarial accrued liability	191,294,378
System assets as of that date were	<u>197,133,845</u>
The unfunded actuarial liability was	<u>(\$5,839,467)</u>
The ratio of system's assets to total actuarial liability was	103.1%
As of that date the total covered employee payroll was	<u>\$61,615,228</u>

The normal cost for employees on that date was 8.50% of payroll

The normal cost for the employer was 1.90% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/1997	\$128,744,051	\$132,298,183	\$3,554,132	97.3%	\$48,878,082	7.3%
1/1/1998	\$149,545,039	\$143,697,064	-\$5,847,975	104.1%	\$48,254,760	-12.1%
1/1/2000	\$177,069,820	\$172,188,630	-\$4,881,190	102.8%	\$60,575,696	-8.1%
1/1/2002	\$197,133,845	\$191,294,378	-\$5,839,467	103.1%	\$61,615,228	-9.5%

Mass. Turnpike Authority Employees' Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	21	17	16	431	433	18	27	27	20	111
Ordinary Disability	1	0	0	23	20	1	0	0	1	0
Accidental Disability	1	2	2	24	24	1	1	5	5	2
Total Retirements	23	19	18	478	477	20	28	32	26	113
Total Retirees, Beneficiaries and Survivors	503	506	499	576	607	600	595	606	611	702
Total Active Members	1,319	1,337	1,408	2,139	2,036	2,040	1,444	1,393	1,382	1,260
Pension Payments										
Superannuation	\$3,031,405	\$3,221,983	\$3,358,456	\$4,452,720	\$6,004,082	\$5,984,518	\$6,071,052	\$6,301,005	\$6,612,934	\$7,079,833
Survivor/Beneficiary Payments	433,979	439,315	474,206	491,320	531,987	558,704	544,972	596,370	581,150	616,352
Ordinary Disability	297,886	281,565	263,852	250,465	239,137	199,082	179,687	202,503	286,377	257,043
Accidental Disability	237,529	250,462	277,781	335,976	345,812	318,498	394,705	545,929	704,869	813,745
Other	<u>89,617</u>	<u>105,324</u>	<u>112,052</u>	<u>131,807</u>	<u>148,219</u>	<u>151,018</u>	<u>236,253</u>	<u>206,539</u>	<u>185,344</u>	<u>188,703</u>
Total Payments for Year	<u>\$4,090,416</u>	<u>\$4,298,649</u>	<u>\$4,486,347</u>	<u>\$5,662,288</u>	<u>\$7,269,237</u>	<u>\$7,211,820</u>	<u>\$7,426,669</u>	<u>\$7,852,346</u>	<u>\$8,370,674</u>	<u>\$8,955,676</u>

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